

## Press Release

**No. 8/2017**  
**13 January 2017**

### **TRIS Rating Assigns "AA-/Stable" Rating to Senior Unsecured Debt Worth Up to Bt12,000 Million of "TU", Replacing Recent Debt of Up to Bt10,000 Million**

TRIS Rating has assigned the rating of "AA-" to the proposed issue of up to Bt12,000 million in senior unsecured debentures of Thai Union Group PLC (TU). At the same time, TRIS Rating has affirmed the company rating and current senior unsecured debenture ratings of TU at "AA-". The outlook remains "stable". The assigned issue rating replaces the rating of the proposed issue of up to Bt10,000 million announced on 24 November 2016 as the company decided to increase the bond size. The proceeds from the new debentures will be used to repay TU's existing debts and fund planned capital expenditures. The ratings reflect TU's strong market position as one of the world's leading tuna processors, the diversity of its products and markets, and the group's well-known brands in Europe and the United States (US). These factors are partially offset by the inherent volatility of raw material prices, exposure to the industry-wide effects of disease outbreaks, fluctuations in foreign exchange rates, and changes in the regulatory frameworks regarding trade barriers and the fishing industry.

The "stable" outlook reflects the expectation that TU will sustain the strong operating performance and maintain its competitive advantage through economies of scale and production efficiency. The company's diversified production bases, markets, and products will help stabilize its revenue streams despite the volatile prices of some products.

TU's ratings upside is limited after its recent debt-funded acquisition. On the contrary, the ratings and/or outlook could be downgraded if TU's operating performance or financial profile is significantly weaker than expected, resulting in a weaker capital structure and deteriorating cash flow protection.

TU was established in 1977 by the Chansiri family. The company is one of the leading seafood companies in the world. Its product lines cover tuna, shrimp, sardines, salmon, pet food, and more. During the first nine months of 2016, tuna products generated 36% of total revenue. Shrimp and shrimp-related products were the company's second-largest portion of total revenue (27%), followed by salmon (9%), sardines and mackerels (8%), pet food (7%), and value added and other products (12%).

TU is the world's largest producer of canned tuna. The company produces about 300,000 tonnes of tuna per annum, approximately 18% of the 1.7 million tonnes of canned tuna produced worldwide. TU's production bases are geographically diversified, spreading across seven countries on five continents. The main production facilities for TU and its affiliates are located in Thailand, the US, Ghana, and the Seychelles islands. TU also has production facilities in Vietnam, France, and Papua New Guinea. TU's major market is the US, which accounted for 39% of total revenue in the first nine months of 2016. Sales in European markets accounted for 33% of total revenue, followed by sales in Thailand (8%) and Japan (6%).

TU's revenue in the first nine months of 2016 stood at Bt100,825 million, up 9.8% compared with the same period of 2015. The growth was mainly driven by the consolidation of newly acquired Rugen Fisch, a strong performance of branded tuna in Europe, and the continued improvement of the pet care segment. TU's operating profit margin slightly weakened. The operating profit margin in the first nine months of 2016 was 7.4%, down from 8.0% during the same period of a year earlier. The drop in profitability was mainly caused by skyrocketing salmon cost from Chilean Algae bloom, high tuna cost during the second quarter of the year, as well as price competition in private label tuna segment. Earnings before interest, tax, depreciation, and amortization (EBITDA) improved to Bt8,418 million in the first nine months of 2016, from Bt8,120 million during the same period of 2015, supported by rising revenue.

During the first nine months of 2016, TU has completed several merger and acquisitions, totaling approximately Bt25,000 million. As a result, the total debt to capitalization ratio increased from 46.1% in 2015 to 48.9% as of September 2016. TU's cash flow protection has dropped modestly. The FFO to total debt ratio declined from 21.5% in 2015 to 19.1% (annualized, from the trailing 12 months) during the first nine months of 2016. However, the EBITDA interest coverage ratio rose from 6.6 times in 2015 to 8.8 times in the first nine months of 2016, following the lower cost of funds.

In October 2016, TU announced it has completed an investment in Red Lobster Master Holding, L.P. (Red Lobster), at a total cost of US\$575 million (equivalent to Bt20,125 million). The investment comprises US\$230 million for a 25% equity stake and US\$345 million in 10-years convertible preferred shares. The preferred shares can be converted at any time into an additional 24% equity stake or

(Continue on page 2)

redeemed at an agreed amount after 10 years. This investment is in line with TU's long-term strategy to enter into food service industry, allowing the company to have forward integration, obtaining direct access to consumers. TU will receive a return of 8% per annum on the convertible preferred shares, or about US\$22 million after tax (equivalent to Bt770 million) annually. Moreover, the company expects to build on its existing business relationship with Red Lobster. TU has long been supplying seafood worth more than US\$50 million per year to Red Lobster. This investment will modestly weaken TU's financial profile in the short term since this transaction is 100% debt-funded. However, TRIS Rating expects TU will gradually manage its debt to capitalization to fall below the company's stated policy of 50% and improve its cash flow protection in the intermediate term.

In the short term, TU could be challenged by volatile raw material costs, as well as fluctuating in currencies in key markets, especially the US and Europe, including the United Kingdom (UK). The recent depreciation of Great Britain Pound (GBP) against Thai Baht will impact TU's business since approximately 10% of TU's total revenue came from products sold to the UK. According to the management, TU plans to negotiate its product prices to mitigate the impact, together with launching new value-added products to the UK and other markets. Funds from operations (FFO) are forecast to soften in 2016 and will gradually improve to approximately Bt10,000 million in 2017-2019. TRIS rating expects TU's FFO to total debt to hover around 15%-20% in 2017-2019.

### **Thai Union Group PLC (TU)**

#### **Company Rating:**

AA-

#### **Issue Ratings:**

TU172A: Bt2,500 million senior unsecured debentures due 2017	AA-
TU192A: Bt3,150 million senior unsecured debentures due 2019	AA-
TU197A: Bt6,000 million senior unsecured debentures due 2019	AA-
TU212A: Bt1,550 million senior unsecured debentures due 2021	AA-
TU217A: Bt1,500 million senior unsecured debentures due 2021	AA-
TU217B: Bt2,000 million senior unsecured debentures due 2021	AA-
TU237A: Bt2,000 million senior unsecured debentures due 2023	AA-
TU242A: Bt1,050 million senior unsecured debentures due 2024	AA-
Up to Bt12,000 million senior unsecured debentures due within 2027	AA-

#### **Rating Outlook:**

Stable

**TRIS Rating Co., Ltd./www.trisrating.com**

Contact: santaya@trisrating.com, Tel: 0-2231-3011 ext 500/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand

© Copyright 2017, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at <http://www.trisrating.com/en/rating-information/rating-criteria.html>.